

Office of Research and Demonstrations

RESEARCH BRIEFS

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Impact of the Medicaid Drug Rebate Program on Expenditures, Utilization, and Access

Background

- The Omnibus Budget and Reconciliation Act of 1990 mandated drug manufacturers to pay Medicaid rebates effective January 1, 1991. Medicaid pays for approximately 15% of all prescription drugs dispensed in the United States. Until the rebate program, this purchasing power was not tapped because individual States had difficulty in obtaining volume discounts.
- The rebate mechanisms apply to all States uniformly. However, the rebate calculation varies according to drug patent status, best price and inflation adjustment.
- The rebate program was successful in achieving the intent of the legislation: obtaining volume discounts to Medicaid as afforded to other large purchasers and holding costs down for the Medicaid program.

Medicaid Drug Utilization

- Medicaid enrollment remained stable at 21 to 23 million people from 1975 to 1988 but grew to 32.7 million in 1993. In 1988, 67% of all those on medical assistance received prescription drugs, which rose to 73% in 1993.

- The aged, disabled and blind represent 34% of Medicaid enrollees and account for 76% of prescription drug expenditures. In contrast, AFDC children represent 47% of Medicaid enrollees but only 11% of prescription drug expenditures.

Medicaid Drug Expenditures

- Medicaid drug expenditures grew from \$4.4 billion in 1990 to approximately \$8 billion in 1993, not including rebates.
- Medicaid spent an average of \$57.58 on prescription drugs per beneficiary in 1975, \$128.97 in 1983 and \$333.50 in 1993. Medicaid drug recipients averaged 12.4 prescriptions in 1975, 13.0 in 1983, and 14.6 in 1993.
- Drug program expenditures increased 63.3% (1993 constant dollars) from 1988 to 1993 with inflation and rebates taken into account. The single largest factor contributing to the growth in drug expenditures was the expansion of Medicaid eligibles. If no growth had occurred in the number of eligibles or recipients and general inflation and rebates accrued had been accounted for, the estimated drug expenditures in 1993 would have been \$3.1 billion in 1988 constant dollars.

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Impact of the Medicaid Drug Rebate Program on Expenditures, Utilization, and Access—Continued

Effects of the Rebate Program

- Rebates collected from 1991 through 1993 were \$2.51 billion. These rebate payments resulted in a 4.6% reduction in FY 1991 drug expenditures, a 13.0% reduction in FY 1992, and a 17% reduction in FY 1993.
- The administrative costs of the rebate program by State Medicaid programs were less than 1%, on average, of the rebates collected.
- The amount of change in drug expenditures after rebates varied widely across states, while the rebate amount as a percent of drug expenditures was relatively stable.
- After adjusting for rebates and enrollment growth, seven of eight case study states had less than a 7% increase in expenditures over the two year period (1990 to 1992). This was equal to or less than the general rate of inflation.
- Changes in drug expenditures were analyzed by 48 therapeutic categories in the 8 states before and after rebates. Before rebates 28 of the 48 therapeutic categories in Missouri doubled in drug expenditures from 1990 to 1992. In contrast, Arkansas actually had a decrease in expenditures for approximately one-fourth of the therapeutic categories. After rebate all but one category in Missouri showed an increase in expenditures while approximately one-half of the categories in Arkansas decreased in expenditure.
- After adjusting for inflation (1993 constant dollars), the average prescription payment less collected rebates collected in FY 1993 (\$18.80) was less than the average Medicaid prescription payment experienced in 1989 (\$19.08).
- The national average of percent change in annual drug expenditures per recipient 1990 versus 1992 after rebates and adjusted for inflation was -2.9% with 25 States above and 25 States below this percentage.